

**BILL #** HB 2058

**TITLE:** Eastern Arizona College; baccalaureate degrees

**SPONSOR:** Gray

**STATUS:** As Amended by Senate Higher Education

**PREPARED BY:** Amy Strauss

## **FISCAL ANALYSIS**

### **Description**

The bill makes several changes to Graham Community College District, by permitting Eastern Arizona College (EAC) to offer 4-year baccalaureate degrees beginning in FY 2007. Some of the major provisions include:

- Allows EAC to offer 4-year baccalaureate degrees on 4 academic disciplines in the first year, 6 in the second and third, and an unlimited number of degrees in the fourth and following years.
- State funding for Graham's upper division (300 to 400 level) students, including \$36 for Capital Outlay State Aid and \$5,564 for Operating State Aid.
- Caps the rate at which Graham can levy property taxes at \$1.50, down from the current rate of \$2.07.
- Grants EAC the option of becoming a 4-year college under the jurisdiction of the Arizona Board of Regents (ABOR). Under this scenario the Graham Community College District would be abolished.

### **Estimated Impact**

The bill will generate additional General Fund costs, only one of which can be quantified in advance. The new upper division enrollment formula is expected to cost \$1.3 million above the FY 2007 JLBC baseline for EAC's existing statutory funding formula. This estimate is based upon EAC's projection of upper division enrollment. The cost is expected to increase to \$2.8 million in FY 2008.

The bill could also generate new costs if the upper division expansion results in additional operating expenses or the construction of new student housing. EAC may also need to address any issues raised by the accreditation process. All of these expenses are difficult to predict in advance. In general, EAC believes that the new funding formula will be sufficient for these costs.

Some of these costs may be offset if EAC's 4-year degrees divert lower division students from attending the more expensive university system. However, these savings cannot be accurately predicted at this time.

If EAC eventually decides to become a 4-year state college under ABOR jurisdiction, these savings may not occur and there could be additional costs as well. The long-term impact will depend on whether EAC lower division students continue to be funded at the less expensive rates provided in existing statute, or if those students would be funded according to the traditional 22:1 university enrollment formula. It is unclear how the bill would treat those students. If they are funded according to the traditional university enrollment formula, it would cost more per student than the existing lower division community college formula. Under this scenario, EAC employees would also become eligible for state employee pay raises and the university would qualify for building renewal funding. In addition, EAC would forego about \$2.4 million in annual property tax revenues.

### **Analysis**

The bill allows EAC to offer 4-year baccalaureate degrees beginning in FY 2007. The district would be authorized to offer 4-year baccalaureate degrees on 4 academic disciplines in the first year, 6 in the second and third, and an unlimited number of degrees in the fourth and following years. Demand for these programs, and how quickly EAC expands its offerings, are factors that will determine the long-term fiscal impact of this bill.

Due to Graham's most recent enrollment count of 2,504 Full-Time Student Equivalents (FTSE), the JLBC baseline provides EAC with \$17.4 million in FY 2007. (Including all sources of state and local funding, the district's total budget is about \$41.6 million.) The district projects that, under the bill, it would add 235 upper division students in FY 2007 and 504 in FY 2008. The bill specifies that each upper division student would receive \$36 for Capital Outlay State Aid and \$5,564 for Operating State Aid. The total cost added by this provision above the FY 2007 JLBC baseline, therefore, would be \$1.3 million. In FY 2008 the cost would increase to \$2.8 million. *Table 1* below displays the additional state funding that would be provided for Graham in FY 2007 and FY 2008.

<b>Table 1</b>		
<b><u>Graham Community College Additional District Funding</u></b>		
	<b><u>FY 2007</u></b>	<b><u>FY 2008</u></b>
Capital Outlay State Aid	\$8,500	\$18,100
Operating State Aid	<u>1,307,500</u>	<u>2,804,300</u>
<b>Total Additional Aid</b>	<b>\$1,316,000</b>	<b>\$2,822,400</b>

The bill specifies that for FY 2007 and FY 2008, funding will be based on district estimates of upper division students. For FY 2009, funding will revert back to audited Full Time Student Enrollment (FTSE) numbers from FY 2007 to calculate state aid. Based on its existing lower division population, EAC estimates adding 235 upper division students in FY 2007, all of which would be 300 level students. In FY 2008, EAC estimated adding another 235 students to 300 level courses and assumed an attrition rate of 15% for those students moving into the 400 level classes. They also estimated enrollment in each of the two additional baccalaureate programs in years 2 and 3 by taking 80% of the average enrollment of the education, nursing and business programs. *Table 2* displays EAC's estimated enrollment for the proposed baccalaureate programs.

<b>Table 2</b>							
<b><u>Eastern Arizona College</u></b>							
<b><u>Baccalaureate Degree Programs</u></b>							
	<b><u>Education</u></b>	<b><u>Nursing</u></b>	<b><u>Business</u></b>	<b><u>Interdisciplinary</u></b>	<b><u>Program 5</u></b>	<b><u>Program 6</u></b>	<b><u>Total</u></b>
				<b><u>Studies</u></b>			<b><u>Enrollment</u></b>
FY 2007	42	42	43	108	--	--	235
FY 2008	78	78	80	200	34	34	504
FY 2009	78	78	80	200	64	64	564

The bill may result in additional operating or capital costs. There are currently 420 beds on campus. If demand exceeds EAC's existing capacity, there could be additional housing costs. Prior to beginning operations, there could also be costs associated with baccalaureate accreditation. According to the Arizona Community College Association (ACCA), the cost of accreditation includes a fee for the Higher Learning Commission audit, which is determined by a number of factors, including the number of members on the audit team (approximately 3-9) and the number of days they visit the institutions (ranges from 2-3). The maximum fee associated with the audit is \$17,715, which does not include the lodging, meals and airfare of visiting auditors. The other additional costs, including salaries, student housing and operations and maintenance cannot be determined with certainty.

If EAC becomes a 4-year state college under ABOR jurisdiction, it is not clear if those students would be funded according to the existing statutory formula, or if they would be funded according to the traditional university 22:1 enrollment formula. Including Equalization Aid, the state currently provides on average about \$7,500 in General Fund support for each Graham FTSE. General Fund support for each university Full Time Equivalent (FTE) is on average \$7,700. Therefore, if EAC were to be funded under the traditional university enrollment formula, each lower division student would generate an additional \$200 in state funding. If, however, EAC's lower division students continue to be funded at the existing rate, each lower division student diverted from the universities to Graham would result in a corresponding savings.

As a point of comparison, in Florida, there are currently 5 community colleges that are authorized to offer baccalaureate degree programs. In FY 2004, according to information supplied by the Florida Department of Education, there were approximately 930 FTSE in baccalaureate degree programs at a Florida community college. Total expenditures for these programs were \$8.5 million, or approximately \$9,200 per FTSE. The Florida Department of Education projects enrollment to increase to about 2,300 FTSE in FY 2006.

### **Local Government Impact**

The bill requires the community college levy be capped at to \$1.50, down from \$2.07. This would result in a reduction of property tax revenues of approximately \$(633,000) for Graham. The main provision of the bill, which allows Graham to offer baccalaureate degrees, will have additional long term costs as the programs expand. This might include additional classroom or lab space. While the bill stipulates that property taxes may not be used for instructing upper division students, they can be used on operation and maintenance costs associated with the campus. This would constitute additional costs if the baccalaureate programs require expansion.

4/20/06